



CHAPTER 1

COMPENSATION REFORM OVERVIEW

COMMONWEALTH OF VIRGINIA'S COMPENSATION MANAGEMENT SYSTEM

INTRODUCTION

In 1998, the Commission on Reform of the State Compensation Plan was formed to recommend modification to the Commonwealth's classified compensation plan. The need to reform the State's compensation and classification system was formally recognized by the 1994 Workforce Commission. The 1998 Commission adopted and refined the objectives of the 1994 Workforce Commission and developed a new compensation plan for the Commonwealth. The new system reflects contemporary human resources practices used by many public and private employers and is designed to meet the on-going needs of the agencies in effectively fulfilling their missions and delivering services to the citizens of the Commonwealth.

The Commission's findings and recommendations are presented in the January 14, 2000, report entitled Report: Reform of the Classified Compensation Plan (see Appendix B). The Governor and the 2000 session of the Virginia General Assembly approved the Commission's recommendation to develop a new Compensation Management System for employees covered by the Virginia Personnel Act.

Covered employees include the majority of individuals employed by the Commonwealth's Executive Branch. Employees not covered by the Virginia Personnel Act include Judiciary Branch employees, faculty employed in the Commonwealth's colleges and universities, employees of independent agencies, employees of the Virginia Commonwealth University Health System Authority and the University of Virginia Medical Center. These employees are excluded from the new Compensation Management System. The Virginia Personnel Act does not cover **hourly** employees (formerly referred to as **wage** employees), but their pay generally is determined in accordance with the Compensation Management System for classified employees.

The change from the former system to the new Compensation Management System is a major one. Most components of the former system have been changed. The new system introduces new pay practices as well as the concept of career growth. While the former system emphasized the **classification** or evaluation of positions, the new system emphasizes **compensation** of the employee. In other words, the system has shifted from assigned job duties and responsibilities to recognizing the employee's contribution to the organization (from position-based to person-based). Additionally, the new Compensation Management System shifts the responsibility and accountability for administering compensation policies and practices from the Department of Human Resource Management (DHRM) to agency management.

The following sections identify the major components of the new Compensation Management System and contrast the features with the former classified compensation plan.

PAY PHILOSOPHY

Previously, the Commonwealth's stated philosophy or goal was to pay salaries comparable to employers in the private sector in the Commonwealth. A new pay philosophy has been developed. In the new system, salaries are compared to both private and public sector organizations using local, regional, and national information. **Total compensation**, which includes both salary and benefits, continues to be used when analyzing the labor market information.

In the new system, salary increases are based on performance. Entitlements such as across-the-board increases have been eliminated.

JOB ORGANIZATION STRUCTURE

The former Classification Plan consisted of approximately 1,650 individual job classifications, which were functionally organized into 580 class series within 8 broad occupational groups. Included were a number of agency specific and central agency job classes.

In contrast, the Compensation Management System has consolidated the job organizational structure into approximately 300 broad **Roles**, approximately 60 **Career Groups** and 7 **Occupational Families**. All agency

and central agency specific job classifications have been consolidated into the new job organization structure.

Each new **Occupational Family** includes a number of **Career Groups**. Each **Career Group** identifies progressively higher **Roles** within a recognized occupational field. The concept of **Role** is central to the new job structure. **Roles** describe a broad array of similar positions reflective of different levels of work within an occupational field. The consolidation of the former job classes into the new broader **Roles** helps provide greater consistency in salaries assigned to the same or similar work across the Commonwealth.

CONSOLIDATION OF JOB STRUCTURE

Item	Former	New
#Occupational Groups/ Occupational Families	8	7
# Class Series/ Career Groups	580	approximately 60
# Job Classes/ Roles	1,650	approximately 300
Agency Specific Classes	Numerous	None

SALARY STRUCTURE

The former State Compensation Plan was a **graded salary plan** consisting of 23 pay grades with a 56% range spread between the minimum and maximum of each grade. Within each pay grade were 21 fixed pay steps that increased in a uniform percentage of 2.25%. Each of the 1,650 job classifications was assigned to specific pay grade.

Pay Bands

The new Salary Structure in the Compensation Management System consists of 9 pay bands. The first eight bands have a range spread of approximately 105% between the minimum and maximum salaries. There is a 30.6% difference between the minimum salary in each pay band except between pay band 2 and 3. The pay bands are “stepless”; that is there are no incremental steps within the band. The 9th pay band specifically addresses Mental Health physicians that serve as either Facility Directors or Medical Directors. The maximum salary of the 9th pay band is based on the market for these positions.

The transition from a ***graded salary plan*** to the ***pay band structure*** is the result of a comprehensive analysis of the class specifications and a review of best practices adopted by other public and private organizations with similar pay banding structures and alternative pay practices. The review included an in-depth analysis and grouping of the classifications that had similar duties and responsibilities, as well as knowledge, skills, abilities and qualifications.

Based on this review, the most logical grouping across various occupational areas resulted in the consolidation of 3 former pay grades into each pay band with the exception of pay band 2 that only grouped 2 former pay grades (4 and 5). An additional 10% (with the exception of pay band 2 which was increased by 20%) was added to the maximum salary of each pay grade resulting in approximately 105% range spread for each new pay bands. The Salary Structure Conversion Table is shown below.

**SALARY STRUCTURE CONVERSION TABLE
OF PAY GRADE TO PAY BAND
(Salaries as of 11-25-99)**

CURRENT			NEW		
GRADES	RANGE		BANDS	RANGE	
	MINIMUM	MAXIMUM		MINIMUM	MAXIMUM
1	\$ 12,689	\$ 19,811	1	\$ 12,689	\$ 26,042
2	\$ 13,871	\$ 21,657			
3	\$ 15,164	\$ 23,675			
4	\$ 16,577	\$ 25,881	2	\$ 16,577	\$ 34,021
5	\$ 18,122	\$ 28,292			
6	\$ 19,811	\$ 30,929	3	\$ 19,811	\$ 40,659
7	\$ 21,657	\$ 33,811			
8	\$ 23,675	\$ 36,962			
9	\$ 25,881	\$ 40,406	4	\$ 25,881	\$ 53,116
10	\$ 28,292	\$ 44,171			
11	\$ 30,929	\$ 48,287			
12	\$ 33,811	\$ 52,787	5	\$ 33,811	\$ 69,391
13	\$ 36,962	\$ 57,706			
14	\$ 40,406	\$ 63,083			
15	\$ 44,171	\$ 68,961	6	\$ 44,171	\$ 90,653
16	\$ 48,287	\$ 75,387			
17	\$ 52,787	\$ 82,412			
18	\$ 57,706	\$ 90,092	7	\$ 57,706	\$ 118,432
19	\$ 63,083	\$ 98,487			
20	\$ 68,961	\$ 107,665			
21	\$ 75,387	\$ 117,697	8	\$ 75,387	\$ 154,719
22	\$ 82,412	\$ 128,665			
23	\$ 90,092	\$ 140,654			
OVER 23	NO CURRENT RANGE		9	\$ 98,486	MARKET

Competitive Differentials

A **Competitive Differential** is an extension to the maximum salary in an existing pay band and is used for select jobs based on local market conditions. **Competitive Differentials** allow agencies to pay higher salaries where justified. The Department of Human Resource Management (DHRM) must approve **Competitive Differentials**. **Competitive Differentials** may apply to specific positions, **Roles, Standard Occupational Classifications (SOC Codes)**, locations, and/or pay areas within any agency.

- **Northern Virginia Differentials**

Northern Virginia Differentials vary from 9% to 30% based on market data. They are applied in much the same way as **Competitive Differentials**. However, they are not agency specific. Rather, they are available to all agencies with positions in northern Virginia. For this reason, separate pay band ranges are maintained on PMIS for the northern Virginia (FP) pay area.

Sub-Bands

A **Sub-Band** is an identified segment of an existing pay band with a specified minimum and maximum salary within that pay band. In some situations agencies may establish **Sub-Bands** to manage employees' salaries within their pay bands. **Sub-Bands** are not intended for application to most employees. Law enforcement ranks are an example of where using **Sub-Bands** may be appropriate.

JOB EVALUATION METHODOLOGY

The Compensation Management System will retain the position classification method, or whole job approach, of job evaluation to allocate positions into **Roles**. Previously, job evaluation was based on seven compensable factors which were complexity of work, supervision exercised, supervision received, scope, impact of action, personal contact; and knowledge, skills and abilities. The new Compensation Management System uses three compensable factors, **complexity of work, results** and **accountability**, for job evaluation purposes.

The position classification method will determine the internal value of a job (or **Role**) by comparing the job to the newly developed **Career Group Descriptions** and to other jobs or **Roles** within the organization. By assigning jobs to a broader **Role**, job evaluation should be more understandable to employees and managers and less cumbersome to administer. Additionally, external salary data will be available to help insure the jobs are properly aligned with the market.

The broader **Roles** also allow agencies to develop additional job evaluation dimensions to support their agencies' unique needs. Alternative approaches to determine job worth may include skill- or competency-based systems, rank structures, and occupational requirements such as professional licensing or certification.

PERFORMANCE MANAGEMENT

The performance management program used in the Compensation Management System retains selected features of the original Employee Incentive Pay Program (EIPP) but expands the concept of linking employee performance to pay. The performance management program has been designed to insure that increases approved by the Governor and the General Assembly can be appropriately distributed based on the employee's performance rating. The **pay band structure** allows for performance increases without having to change the band structure.

The expanded features of the performance management system include fewer performance rating levels, an extended probationary period for new employees, employee self-assessment and employee feedback on supervisor's performance. The performance program is flexible and allows agencies to design optional features to effectively meet their agencies' needs. Options may include group or team performance evaluations, the use of numeric weighting systems, and the use of performance measures based on organizational objectives.

COMPARISON OF CHANGES TO THE PERFORMANCE MANAGEMENT PROGRAM

Item	Former	New
Rating levels	5 levels: <ul style="list-style-type: none"> • Exceptional • Exceeds Expectations • Meets Expectations • Fair But Needs Improvement • Does Not Meet Expectations 	3 levels: <ul style="list-style-type: none"> • Extraordinary Contributor • Contributor • Below Contributor
Appraisal of employee	Supervisor only	Supervisor & Employee Self-Assessment
Employee feedback on supervisor's performance	None	Upward feedback for developmental purposes provided to rater
Appraisal instrument	Qualitative	Qualitative or Quantitative
Appraisal of team/group	None	<ul style="list-style-type: none"> • Team/Group • Organization objectives
Probationary Period	6 months	<ul style="list-style-type: none"> • 12 months (standard) • Management option to extend up to 18 months for performance reasons

PAY PRACTICES

The objective of the Compensation Management System is to implement contemporary compensation practices that reflect best practices used in both the public and private sectors. These pay practices will provide managers a mechanism to financially reward employees for their organizational contributions without having to solely rely on the traditional practices of promotion and position reallocation.

The pay practices available to the agencies consist of a combination of current practices that have been revised and a new practice. Revised pay practices include starting pay, promotion, reallocation (role change), lateral transfer and demotion. The new pay practice is in-band adjustments. The in-band adjustment allows agencies the flexibility to provide pay increases to address such issues as internal alignment, retention, change in duties and professional development.

The focus is on variable pay increases rather than the fixed prescribed pay increases of the past. Supplemental pay such as shift differentials, on-call

and call-back will be delegated to each respective agency to manage. **Differentials** will continue to be incorporated into the system.

SURVEY METHODOLOGY

In the past, the Department of Human Resource Management (DHRM) annually surveyed benchmark positions and provided information to the Governor and General Assembly for the purpose of determining annual increases and structure adjustments. In the new Compensation Management System, accurate and reliable salary data will be fundamental to managing the compensation component of the system.

Salary Reference Data on benchmark positions within each **Role** will be provided to the agencies for use in starting pay decisions and other salary determinations. Agencies may continue to provide DHRM with local salary information to support their respective needs. Salary data in combination with other factors such as agency need, budget and internal alignments will provide Human Resource staff and agency managers the appropriate information for managing pay decisions.

CAREER GROWTH

In the past, little emphasis has been placed on career growth and professional development. Career growth opportunities were limited to moving to the next highest job class in a class series or accepting a job in a supervisory capacity.

The new Compensation Management System will promote growth and professional development through the identification of career paths within each **Role** as well as career progression to different **Roles**. In the next phase of development, **Role** descriptions will identify the skills and abilities required to move from one **Role** to another and/or to a different **Career Group**. Expert workers will have the opportunity to advance professionally and financially without having to move to supervisory or management positions. The **banded salary structure** allows for a dual track where supervisory and non-supervisory employees can progress through the same pay band to advance their careers.

With the concept of broad **Roles** and expanded pay bands, employees have opportunities for career growth without having to change positions. This

structure allows employees to become more knowledgeable and proactive in their own self-development and permits agencies to retain key talent.

MANAGEMENT ACCOUNTABILITY

The Compensation Management System is designed to support managers in achieving their agencies' organizational mission and objectives. The pay structure and practices incorporated into the Compensation Management System provide management increased flexibility in salary administration within their agencies.

The accountability for pay decisions shifts to agency's management. Managers will play a more active role in salary decisions. This shift in accountability will result in managers having to justify pay decisions to senior management, explain them to employees and stay within existing budgets. The success of the pay program will depend initially on the training provided to managers and employees; ultimately it will be measured by the decisions made by managers.